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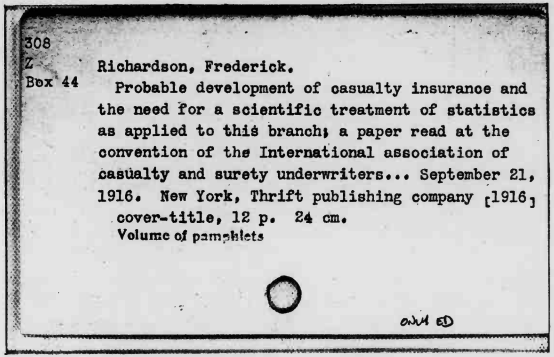
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Probable Development of Casualty Insurance and the Need for a Scientific Treatment of Statistics as Applied to this Branch

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A PAPER

Read at the Convention of the International Association of Casualty and Surety Underwriters

BY

Mr. FREDERICK RICHARDSON

United States Manager, General Accident, Fire and Life Assurance Corporation, Ltd.

September 21, 1916

Issued by
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500 West 122nd Street, New York

PROBABLE DEVELOPMENT OF CASUALTY INSURANCE AND THE NEED FOR A SCIENTIFIC TREATMENT OF STATISTICS AS APPLIED TO THIS BRANCH

By Mr. Frederick Richardson

United States Manager, General Accident, Fire and Life Assurance Corporation, Ltd.

Mr. President and Gentlemen of the International Association of Casualty and Surety Underwriters:—

If to take thought for to-morrow is deemed wisdom in all men, it is peculiarly fitting that we who are engaged in the business of Insurance should, in the brief moments when we are free from the daily round, take stock of our aims and our achievements. To cast a backward glance over travelled roads, and then to entertain conjecture of the way that lies before us when our journey shall have been resumed, that is to give purpose to our undertakings, and, like a good General, to march our forces with safety from the known to the unknown. I offer no apologies, therefore, in presenting at this time for your consideration one or two ideas bearing on the practice and development of the business in which we are engaged. On the other hand I hope you will pardon any rash and presumptuous statements, which, out of the charity of your hearts please attribute to my short acquaintance with the American situation and not to any lack of admiration for American initiative and American invention. In me that admiration is boundless as in all my countrymen.

It is to be admitted that we insurance men are a practical kind of people, with a real sense of what is vital and immediate; more prone—to use the homely metaphor—to concern

ourselves with the fish we have to fry, than to lose ourselves in contemplation of the world-encircling seas wherein are countless other fish as yet unrealized and not readily available for the frying pan. Anything vague or academic, and not easily translatable into daily reports, is apt to leave us cold. We are absorbed with the problems and conditions which crowd upon us through the unparalleled growth of the Casualty Insurance business and have no time for what seems to lie too far ahead of to-morrow. And yet sometimes we may have disturbing thoughts as to whether that unparalleled growth might not soon be less marked, indeed whether our place and importance in the world may not suffer some diminution by reason of the constant encroachment of other agencies. In our blackest moments we may even see ourselves nearing a critical juncture in the fortunes of our common enterprise, and wonder whether we are going to consolidate our position and move forward to new conquests, or whether we are doomed to succumb and be the victims of a gradual process of extinction.

Succumb?—Never! Alert and vigorous in the defense of those public institutions with which we have been entrusted, we are the guardians of principles that have become part of the fabric of society, and nothing can make us let go of them!

And so, I venture to say, we may find a corrective for undue pessimism in contemplating our past progress, and find an incentive for fresh endeavor in realizing that there are still undeveloped and undiscovered continents—veritable darkest Africas in fact—to which those principles may yet be applied. So rapid has been the progress of the Casualty Insurance business during the past quarter of a century that anyone returning to London, for example, after a long absence, would scarcely be able to find a single company that had not grown out of all resemblance to its former self. Yes, he might find one which has refused to expand with the times and to change the modest quarters in which it has always been housed. But just a year ago the Spirit of Progress, in the shape of a Zeppelin, dropped a bomb which landed with painful accuracy in the middle of the said office, and viewing the fall of the House of ———— (the name is withheld) it was a source of melancholy satisfaction to me to be able to congratulate its Manager upon the heap of ruins which was all that was left of his ancient home. Let that be a warning to us not, like Peter Pan, to refuse to grow

up! Twenty-five years ago the total income of all the Accident Companies in Great Britain was considerably less than the income of one Company alone to-day. We were on the fringe of insurance society in those days, and there seemed to be no desire on the part of our Life and Fire Insurance contemporaries to admit us into the true fellowship. They said we were lacking in Science and had no Practice worth speaking of. This was only too true, and yet we have lived to see the largest general insurance office in the world transferring a bigger credit balance to Profit and Loss Account from its Casualty operations than from its Fire business. We may be parvenus, but no one can gainsay that we have arrived.

In spite of this let us preserve a becoming humility. There is much to be done before we can say that we have a solid basis of science and a settled and uniform practice. In the nature of things we have been compelled to use empirical methods in operating some of the most important departments of our business. When we began there were few statistics which were specific enough to enable us to compute premium rates in a scientific way, and therefore we had to get our risks on arbitrary and competitive terms and let them work out their own salvation. It has been the function of our Statisticians to analyze the results obtained, and the process, now fairly begun, has opened up endless avenues of investigation and study. In the application of these internal statistics there are two movements to be especially noticed, (1) the classification by industries of Compensation hazards on large aggregations of wages, (2) the analysis of Accident and Health Claims in a co-operative way, as for instance by the Statistical Committee of the Bureau of Personal Accident and Health Underwriters. These, and certain sectional investigations such as the one relating to the Public Liability experience in New York, are indicative of the general trend in statistical matters. They will form valuable contributions to our fund of knowledge on questions vitally affecting our interests and the interests of the public.

But exactly how we use this information is perhaps the most important thing. The conflicting views regarding the application of Compensation experiences, both general and particular, are a clear indication that there is as yet no agreement as to what these are supposed to do. The fact is we are asked to make them do too many things at once. The experimental

method is essentially progressive, whereas it is quite palpable that some people are disposed to read too much into the shifting data of our brief experience, making hasty generalizations from unstable particulars. Moreover there is an overpowering desire to formulate rating systems which up to the present have been based on, or have been proposed to be based on:—

(1) Arbitrary standards set up by Safety Engineers;

(2) Theories in regard to experience rating;

(3) Classification of risks by certain operations common to a number of trades instead of by trade designations.

All we need now is some enterprising medical man to show us how and why we ought to arrange a debit and credit system based on the medical factors connected with each risk, and then the clash of systems will be like the present clash of armaments. He could bring forward most convincing arguments to show why this should be done. A passion for systems, however, is the sign of an orthodox and unoriginal mind. All true research moves over the quicksands of undetermined facts by converting those quicksands, bit by bit, into solid ground. Your system-maker throws a plank across the surface, and having spread the pressure, stands on his plank and thinks he has transformed the quicksands into a stable element. The fallacy of applying a formula derived from a cursory observation of the facts, bracketted with a set of assumptions which are incapable of proof, is only too manifest in the present unsatisfactory level of Compensation rates. A pseudo-scientific method is worse than no method at all. Better to try it on the dog; better if we do not care to experiment for ourselves to let the other fellow do it, which is, after all the way in which most things useful or harmful to mankind have been discovered from the time when Eve put her teeth into that awful and disastrous apple! (As Dean Swift said, "He was a brave man who first ate an oyster.") Are we not in danger of vitiating our experiments by testing for too many things at once? After Joseph Chamberlain had put through the first Compensation Law in England, being questioned on the subject of fair rates, he replied that he had calculated a premium of five shillings per £100 in wages was sufficient for almost any risk coming within the scope of the Act. As the Law was confined to the

more hazardous employments, it need scarcely be said that he was hopelessly wrong. In America you have had similar pronunciamentos from Mr. Woodrow Wilson and others, and it is obvious that rate-making is by way of becoming a pastime for politicians and a mental exercise for respectable but irresponsible amateurs. What more natural, therefore, than to reason in this wise?

"Why not introduce the Totalizator, or *Pari-mutuel,* which has become an approved and settled institution on European and Australian race-courses. Let the horses represent different classifications; let the race begin and close with the year; let the winnings be represented by the losses and let the losses determine the odds; let the latter be called the pure premium. If a horse, which is a single risk, shows poor form increase the odds, if he shows good form reduce them; increase the odds also if he is a 'roarer' and has a tendency to bite; decrease them if his teeth are sound, also if his tail is long because that helps to keep away flies, which everyone who is familiar with the 'Safety First' movement knows are a menace to the human race! Examinations for all physical defects, including spavins, to be made annually, and all prescriptions for such to be considered a complete cure for the time being. Only approved patent remedies to be used. It is, of course, a sure thing that the horse which showed good form last year will do the same this year, whereas it is a well-known fact that horses which have been running badly may suddenly become winners. Regarding such it is always advisable to be guided by any information that may come straight from the stable. No consideration need be paid to the jockey. It is true he may either ride the horse to death, or he may be a gentle soul and get the best out of it, but jockeys change whilst horses are always horses!"

Some such farrago, the production of many minds and many interests, is what we have had to listen to in the name of Compensation rate-making. Why, any Actuary who proposed to adopt vague and supplementary ideas of this kind as a basis for Life Insurance would be exorcised as being possessed of the devil. Loading is, of course, quite proper, but such discriminations as we have been trying to make should only be admissable after a solid foundation of experience has been laid, and then only as infrequent exceptions. Because your grand-parents lived to be octogenarians, and your physical condition and everything about you are so perfect that the examiner figures you out as a hundred per-cent, gilt-edged life,

it is not considered a reason why you should pay less than another man who scrapes through having just managed to score the minimum number of points required. Classifications must be broad or they are not classifications at all. There must be some room for the oscillations of experience. In the final analysis no two objects are absolutely alike, not even two Ford cars or two peas in a pod. A measure of uniqueness resides in all things. But we shall never get anywhere if we allow ourselves to be drawn into a wilderness of distinctions and minutiæ. As well try to catch ostriches with birdlime or elephants with mole-traps as to hope to measure insurance averages in pint pots. We would lose sight of the larger game in beating out every little side-trail. So the fewer classifications and the fewer exceptions the better. Genius has been said to be the gift of seeing the similarities in things apparently dissimilar. It is able to derive universal laws from seeming contradictions. And this is precisely what the insurance principle does.

We must get back to our tents; we must renew our strength in the law of our being before we make excursions into the domain of social reconstruction. It is true that the Merit-rating system has come to stay however much we may need to modify our original notions. It is true we are committed to the movement for accident prevention and the amelioration of factory and work-shop conditions; and we are ready to ally ourselves also with any coherent movement in the interest of preventive medicine. Indeed we have always been deeply concerned in all that makes for the betterment of social conditions and the improvement of social averages. We can say, like Othello, that we have done the State some service, but not, like him, that they know it. Having provided the machinery for the equalization of burdens during a time when statecraft has been floundering in a welter of individual interests, we have not failed to make use of our opportunities for the reduction of human and material loss, and our profession has provided, and will continue to provide, the best brains in the world for the practical solution of social problems. It would, however, be arrant humbug on our part to pretend that we have developed a system which will have the effect of making employers maintain a high standard of accident and disease prevention with a minimum of State compulsion. We can only supplement the work of the Commissioners of Labor, whose obligations are not

relative like ours, but imperative in and inseparable from their office and function.

You may ask what has England to teach us on this subject of Compensation rate-making, and the answer is—just nothing. The companies have confined themselves to tabulating experiences on aggregations of payroll. Inspections are only made in connection with extensive plants and mines. If rates have proved to be too low they have been increased; if too high they have been decreased. Special rates may be made for large risks on the individual experiences of those risks. The whole subject has been looked at from the Underwriter's viewpoint, and rates have been adjusted as the exigencies have dictated. This is the natural method where you have to rely on internal statistics as they develop.

There are several obvious suggestions that might be made to indicate starting points from which some interesting explorations through the thickets and entanglements of our business could be carried out. The results would be valuable in the right understanding of hazards and in the adjustment of claims. For example, in Compensation statistics we might investigate—

(1) Types of injury with average period of disability in columns of occupation,

(2) Types of injury with average frequency in columns of occupation,

(3) Types of Fatal accidents with average frequency in columns of occupation,

also in relation to industrial and Commercial Accident and Health risks as well,

(4) Incidence of fatal accidents by age and sex.

In regard to (2) and (3) the average frequency would probably have to be calculated on a wages unit, but it might be possible to obtain through our payroll Auditors the figures as to the average number of persons employed in each occupation. As regards the Fatal Accident incidence according to age, this is an important question, as is also the increasing incidence of permanent disablement cases with advancing years. The Metropolitan Life has got out a table of their experience which shows very clearly how much greater is the risk of accidents proving fatal to old and infirm people than to the young and vigorous.

Another suggestion for research is, "What effect has total abstinence on individual hazards and is there a marked difference in the accident frequency and the severity of accidents in prohibition States?" Whilst some think with the poet that

"Malt does more than Milton can
To justify God's ways to man"

there is little doubt that liquor plays its part in bringing about casualties and in giving a serious turn to minor injuries. In England we have always allowed total abstainers a 10% abatement under Accident and Sickness policies, and this allowance has been amply justified. It may be that abstinence from strong beverages is not common amongst my countrymen; that abstainers are so few as to be almost negligible! In any case, in view of the increasing hazards of modern life, it behooves us to study every social habit which is likely to have an effect upon our business. A concise outline of the valuable work which is being done by the Statistical Committee of the Bureau of Personal Accident and Health Underwriters in the dissection of internal statistics, has been given by Mr. Benedict D. Flynn in a contribution to the proceedings of the Casualty Actuarial and Statistical Society of America. We should support and encourage these investigations and any extensions of them.

So much for our immediate problems. What of the future? Well, so far as I can apprehend it, we are reaching a point where our ordinary empirical methods will no longer suffice. They will have to be reinforced by preliminary research if we are to embark safely on the new enterprises that must be attempted to meet the commercial and social needs of the future. Any timidity on our part will lead to insurance experiments by the State. We have seen in this country and in Great Britain the formation of Insurance Funds to meet the special contingencies of the present war. In England, for example, a few offices were transacting Aircraft and Bombardment Insurance in the old empirical way, but the majority of companies held aloof on the ground that they had no experience of the hazards involved, and so the Government stepped in and created a State monopoly of the business. It has been our lot to see experiment after experiment in Casualty and Fire Insurance prove successful in spite of dismal prophecies of failure. But the more strongly we become established the more inclined we

are to leave experimental insurance to the other fellow. If we find it doesn't hurt him, but, on the contrary, appears to be doing him good, we sooner or later take a turn at it ourselves. Take only one or two of the problems which are likely to be presented, and what have we got to offer excepting a whole series of objections? To wit, (1) Risks of active military service, (2) Aviation risks, (3) Loss of employment risks in commercial occupations. And yet because the assumption of these hazards is outside of the range of any single company however bold it might be, it is almost certain that if we do not do something to meet them the State in the long run will. The British experiment in State Unemployment Insurance is going to be a success, and when the system has been more generally adopted in the interests of wage workers, it is unreasonable to assume that the salaried classes will not voice their need for similar protection. Then as regards military risks it would be idle to anticipate that the Government will take care of these adequately by way of pensions. The existing pension appropriation in the United States will probably be diverted to a scheme of universal Old Age Pensions before many years are over. The Citizen Army will include large numbers of business men who will want to know what we can do for them should they be called out on military duty. Accident and Health Insurance has suffered an eclipse in England because so many actual or potential policyholders have gone into the Army or the Navy. The high rates charged for War risks by the Life Offices, and the too rigid interpretation of policy conditions by some of the Casualty Companies, has aroused a certain amount of antagonism, justly or unjustly, and it is to be feared there will be a reaction in favor of State Life and Accident Funds unless the Companies can overcome the difficulties set up by war conditions. The Life Offices are bound to deal with this question, and we should be lacking in foresight if we did not study the present realities with the object of formulating some scheme whereby we could create funds in time of peace to provide compensation for the physical disabilities sustained in time of war.

What then will be the probable development of our business, and why do we need to concentrate on the study of statistics? To me the answer seems to be that we must lay a solid foundation of knowledge in order to be able to provide the

wide-open contracts which will be demanded to meet the needs of the great period immediately ahead of us. Limited Accident and Sickness policies covering rare and strange diseases, whose uncouth names sound like nothing but a mediæval incantation for the cure of warts, are a sample of the sort of thing that will not do. Burglary Insurance will need to be popularized. At present the premium basis hinders this from becoming a popular form of Insurance with householders, whereas the selection of those risks which we do get is often made against us. A low rate on the full value has made Burglary Insurance on the contents of private houses almost as universal in England as Fire Insurance. We are gradually getting rid of the vexatious business of Employers Liability Insurance, which brought us into much ill-deserved disrepute, and we must be prepared to welcome contracts of liability protecting the interests of third parties, instead of contracts of indemnity safeguarding only the interests of the assured. As a result we might hope to hear the last of the insane plea that Automobile Liability Insurance should not be permitted because it is against public policy, when as a matter of fact this form of insurance should be made compulsory. If I have got to be knocked down by a motor-car let it be owned by someone who can pay me substantial damages. What do I care about dogmatic notions concerning public policy, if some cheap rapscallion can bowl me over, and the only satisfaction I get is the knowledge that he may have to spend a month in the County Jail? What the pedestrian public needs is strict police regulations, and compulsory insurance with direct liability of the insurers. The less technical our contracts become the more readily will the beneficent effects of insurance be recognized.

In the main, the general development of our business will continue to follow the progress of mechanical invention and chemical discovery. We are the children of Steam and Electricity—and Gasoline! These propulsive agencies have worked wonders, but the age of Chemistry has begun, and we are on the eve of new marvels which will transform manufacturing processes and methods of agriculture, which will solve problems of fuel consumption and create cheap forms of energy. With that there will be a further widening of human power and human welfare. It seems only the other day that the automobile was held in law to be a nuisance, and now self-propelled road

vehicles are as plentiful as blackberries. A billion dollars worth will be manufactured in America this year and yet saturation point has not nearly been reached. The financiers of this industry eagerly watch the signs and portents, but all their past fears have proved groundless. The more machines there are turned out the greater becomes the demand. Every highway and byway swarms with them. The sedate citizen whose horizon was bounded by the end of his own street, whose movements and range might have been compared with those of the slow-footed domestic beast, now scours the countryside like some swift ruminant. He has got his ten-league boots on, and measures his steps in miles per hour and gallons of essence. He sees the larger panorama of the world as a procession of rapidly unfolding landscapes, and life takes on a new meaning and value as its scope grows wider and wider. Thus, having become more and more accessible to the many, this means of progression is transforming habits and customs and bringing about great changes in the material of civilization. But, as always happens when the multitude have caught up with an idea or an invention, the pioneers have gone ahead—or rather overhead—and, scorning one-dimensional movement, have lifted themselves from the earth and are now careering in the heavens. Soon the younger members of the ***haute monde*** will take to flying as a means of escape from the vulgar herd—are in fact already doing so—and the aeroplane, whilst of low commercial potentiality, will become the pleasure vehicle of every sportsman (and sportswoman too) who is not afraid of breaking his neck. The aeroplane is now almost as stable as a Fifth Avenue omnibus, and when the risk of fire has been eliminated, aeroplaning will be a comparatively safe amusement—as safe as hunting and safer than college football! Besides, never in the history of the world have men shown such superb courage as they are now showing, never were there so many who cherish the belief that to live dangerously is to rub shoulders with the Gods. How are you going to size up these and other phenomena by the old standards? Rapidity of movement on land and water and in the air, and, with that vast increase of mobility, new dangers and new courage to meet them. The joy of speed and power with its accompanying anæsthesia to feelings of fear—who will not yield to it? The timid old ladies, whom some of us can remember, who would not ride in railway

trains; they have nearly all left the earth forever, and soon the era of dangerous living will have set in with a vengeance.

We all realize that under these changing conditions we are bound to make frequent re-valuations of hazards. The exercise of the insurance principle being always exerted towards the maintenance of equilibrium in the things that make for social well-being, we perceive that the force to be exerted must be in proportion to the stresses and strains to be overcome. The problems, therefore, are mathematical. But being social also they must be handled on broad lines. It is almost as easy to over-emphasize statistics as it is to neglect them. Let us do what is necessary for the right conduct of the lines of business we already transact, and let us begin to keep a statistical eye on those other disturbing factors in commerce and in the lives of individuals which may some day come within our ambit. At the risk of being considered an impractical visionary, I confess to a philosophical conviction that somewhen and somehow a genius will arise who will devise world-wide schemes of insurance against crop shortages and against losses due to over-production of manufactured articles, two closely related problems. Maybe if we encourage those Institutes and Societies which are doing such good work in training the younger members of the profession in the science and practice of our business, we may be the means of producing a Pascal or a Newton who will do this. In any case let no one be able to say of us, in Emerson's vivid phrase, "The past has baked your loaf, and in the strength of its bread you would break up the oven".

Mr. President, and gentlemen, not that I think it could be said of you American Executives, for never have I read such able treatises, such masterly analyses as those on record in your proceedings and in other publications, by which any young student can have access to the knowledge of the leading members of the profession. Not a single yellow jacket have I sighted yet, and am, therefore, disposed to think that there are no Mandarins in these parts! Probably a Mandarin could not live in this atmosphere of freedom, of generous thought and impulse, which is America.

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